

UNITED STATES CIVIL SERVICE COMMISSION
OFFICE OF THE EXECUTIVE DIRECTOR
WASHINGTON, D.C. 20415

Chairman

Raymond Jacobson
Executive Director, CSC
Room 5518, Ext. 26111

Executive Vice-Chairman

Clinton Smith
Room 1394, Ext. 26272



Secretariat

Room 1304--1950 F St., N.W.
Code 101, Ext. 2626 or
Area Code 202--632-6066

August 19, 1977

TO: Directors of Personnel

FROM: Clinton Smith
Executive Vice-Chairman

SUBJECT: Evaluating Changes in Average Grade

At a recent IAG meeting, Ed Preston and John Cole spoke to you about our joint project for improving our ability to analyze and manage changes in average grade. This program is described in OMB Bulletin 77-11. In conjunction with the program, each of the covered agencies should have received a special report analyzing the changes in the average grade. The information for these reports was generated from data contained in the Civil Service Commission's Central Personnel Data File. As a follow-up to our discussion at the IAG meeting, we have attached some information which should assist you in evaluating the data.

Attachment

OD/Pers Dist (24 Aug 77):

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Evaluating Change in Average Grade Reports

Over the past few years, concern has been expressed over increases in the average grade of Federal employees. Many of the grade increases involved have been justified. In the federal pay system, an employee's grade is determined by his or her duties. New legislation, new programs, procedural changes, demands for improved service and a variety of other factors have all impacted upon the nature and complexity of the work of specific agencies, bureaus, and functions. These changes have legitimately required the introduction or exercise of higher level skills in the work force.

Not all increases in average grade have been equally well justified, however. In some cases inefficient organization and assignment of work has led to continuing pressures for increases in average grade that are not related to the complexity of the work being performed. To help pinpoint these areas of inefficiency, and to better understand changes in average grade overall, OMB and the Civil Service Commission have developed a new computerized information system. Drawing from the data in the Commission's Central Personnel Data File, the system provides very precise tracking and detailed analysis of changes in average grade by occupation within each agency. OMB Bulletin 77-11 directs agencies to review their existing grade structures in light of this new data and to submit proposed occupational grade reduction targets to OMB along with their FY 79 budget requests.

The principle goals of the grade control effort outlined in Bulletin 77-11 are:

1. to establish a continuing mechanism for identifying and evaluating all future grade escalation trend as they begin.
2. to highlight specific occupations where inefficient organization and assignment of work have led to past growth in average grade not related to the complexity of the work being performed, and to monitor long range agency progress toward reversing such increases.

In each occupational series where the cost of grade increases, rate of grade increases, or potential for savings are exceptional, agencies should:

- a. Determine whether the increases in average grade which have occurred are fully supported and required by changes in the nature and complexity (not volume) of the work.
- b. Determine whether the existing grade structure is essential in light of comparative cost data on alternate grade structures in other agencies, and the grade structure Government-wide.

Not all series will require targets. Targets may be needed, however, in occupational series which fail to meet either of the above criteria.

Section 2 of Bulletin 77-11 describes the specific factors analyzed in the new Change in Average Grade Reports. In general, when determining where grade reduction targets may be appropriate, agencies should focus on occupational series with the following characteristics:

- Series with high cost of increase rankings (shown in Tab A, column 1 of the Change in Average Grade Report). The larger a series' population is (Tab A, columns 3 & 6), the greater is the cost of even a moderate increase in average grade. Shifts of only a few hundredths of a grade are very difficult to deal with. Where grade reductions are determined appropriate, however, corrective action can be focused on shifts in the percentage of employees at each grade level (Tab B).
- Series with large increases in the percentage of employees at high grade levels (Tab B). Such shifts are a problem even where increased hiring at lower grade levels has kept average grade within an occupation fairly stable and thus rate of increase ratings are low (Tabs C & D). Over time, the new lower graded employees are themselves eligible for promotion to the higher grades. When and if the influx of new employees at lower grade levels abates, average grade for the occupation can escalate dramatically.
- Series where the cost of the present grade distribution pattern is markedly higher than the comparative cost if employees were distributed in accord with the 1974 agency or the current Government-wide pattern (Tab A, columns 9 & 11). Such series might present an opportunity to achieve great long range savings through job

restructuring, etc., even though they have had only moderate recent increases, and thus, low cost of increase rankings (Tab A, column 2).

- Series where the average grade for an occupation in one service or bureau is appreciably higher than the average grade for the same occupation in other services or bureaus within the agency, for example: Army Transportation Specialists vs. Navy Transportation Specialists. (Data for each organizational subelement is arrayed under the Departmentwide data for each series in Tabs A & B. Subordinate bureaus, etc. are identified in column 3 of Tab A. These codes are explained in Appendix B).
- Occupational series with small populations that have a relatively low cost of increase ranking (Tab A, column 2), but which are increasing at a very rapid rate (Tab C & D).

Agencies should also look at population shifts between closely related occupations, e.g., a significant drop in the number of clerk typists with a commensurate increase in the number of secretaries, or a drop in the number of engineering technicians with a simultaneous increase in the number of engineers. Where there has been no change in the nature and complexity of the work, or delivery or services, such cross-occupational shifts may ultimately result in unwarranted higher costs of doing business because of higher grade structures in the new occupational series. (Population shifts are shown in Tab A, columns 3 & 6. Occupational series codes appear in Appendix B).

In setting grade reduction targets, agencies should also consider the effect of conditions which may force average grade up, make it difficult to establish quick grade reduction goals, or make it difficult to reach the goals agreed upon:

- Freezes on hiring. Where there is a freeze on hiring, average grade tends to go up because attrition usually is lowest in the higher grades. This occurs because those in the higher grades most often reach these levels by specializing in a particular occupational or functional field. Those at lower grades are more mobile because they

can change occupations, functional specialities, and agencies much more readily. (Shifts in population can be seen in Tab A, columns 3 & 6. Shifts in employee distribution at each grade level can be seen in Tab B.)

- Program cutbacks. When there are cutbacks in the number of positions in an occupation, especially when reductions-in-force are involved, the cutbacks frequently tend to fall first and most heavily on lower grade personnel (Distribution shifts can be seen in Tab B). This drives up the average grade (Tab A, column 8). Even where attempts are made to distribute personnel cuts evenly among grades, a hiring freeze is usually imposed to secure positions for those displaced under reduction-in-force procedures. This leads to the upward pressure on average grade described above.
- Reorganizations. Legislation has been proposed by the Administration which would provide two year grade retention and indefinite salary retention for employees downgraded through no fault of their own as a result of classification actions or as a result of reorganizations. If this legislation is enacted, as seems likely, agencies may be forced to maintain significant numbers of displaced employees at their present grades even though their functions may have been significantly reevaluated or actually altered. In such cases agency efforts to place these individuals in jobs appropriate for their grades will foreclose many opportunities to restructure vacancies, change work assignments, etc., in order to meet grade reduction goals.

OMB will be reviewing proposed agency targets and consulting agencies wherever the number of targets, amounts, or timetables for grade reductions appear questionable, or when it appears targets should have been set for specific occupations where they were not. However, the target setting process is not intended to force agencies to make unjustified cuts or to set unreasonable goals. It is recognized that most corrective actions available to agencies and the resulting savings are essentially long term, for example: slowing promotion rates, lowering the grade level at which new employees are hired, and restructuring work assignments so they can be performed by lower graded individuals. Even where the incumbent of a position is downgraded, in most instances he or she is entitled under current law to maintain the present rate of pay for a period of two years. The new down-

Approved For Release 2002/05/16 : CIA-RDP81-00314R000200090008-5

grading legislation now under consideration would provide even greater protections. As a result, in some occupations agencies will have to devote considerable effort to merely prevent further increases in average grade from occurring.

The intent of analyzing average grade on an occupation by occupation basis is to make it possible to more precisely identify where abuses and inefficiencies are beginning or have occurred so that these can be dealt with selectively. In setting grade reduction targets agencies should assure that their proposals are realistic and reasonable.